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SUBJECT: LUKEWARM RESPONSE FOR TAIWAN FIXED NETWORK LICENSES

REF: TAIPEI 2900

1. (U) According to the Directorate General of Telecommunications (DGT), applications for fixed network licenses closed October 28, 2004. DGT received no applications for comprehensive network service and only one for the local and long-distance land cable leased-circuit business from a cable television provider. Despite the industry's lukewarm response, DGT repeated its commitment to offer licenses on a biannual schedule in March and September and to lower capital requirements for local, long-distance and international business licenses. The next open season for fixed network license applications will be in March 2005.

2. (U) There may be more interest in licenses for local, long-distance and international services in March. According to a DGT plan, a new formula will be used to calculate the minimum paid-in capital for the local call business. For example, the minimum paid-in capital requirement for a local call license for Taipei city would, based on the population of the city, be just 1.2 billion NT dollars (USD 36.3 million). Currently, companies interested in entering the Taiwan market must have paid-in capital of 16 billion NT dollars (USD 484.8 million) and must serve the entire island. For long-distance and international services, the minimum paid-in capital would be lowered to a flat standard of 2 billion NT dollars (USD 60.6 million).

3. (U) Comment: Liberalization of fixed network licensing requirements was a condition of Taiwan's WTO accession. Industry has criticized the biannual application process and Taiwan's lower, but still restrictive paid-in capital requirements. The failure of this September's open season to generate any bids may in part be a reflection of an industry waiting for lower requirements. But more likely, Taiwan's relatively small fixed network service market is not considered attractive to investors facing an overwhelmingly dominant state-owned competitor in Chunghwa Telecom (CHT). The long awaited privatization of CHT, now predicted for early 2005, may alter the equation sufficiently to encourage more competition in the fixed network market in 2005. End Comment.

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